CLEVELAND PUBLIC LIBRARY
BUSINESS DEPT.
CORPORATION FILE

HART SCHAFFNER & MARX



Thirty-Eighth Annual Report
November 30, 1948

MRB
Corp. File

EXECUTIVE OFFICES

36 South Franklin Street
Chicago 6, Illinois

▼

BOARD OF DIRECTORS

Eugene Bashore
Meyer Kestnbaum
Lessing Rosenthal
Joseph Halle Schaffner
Joel Spitz
Clay E. Steele
Harry L. Wells

▼

OFFICERS

Meyer Kestnbaum *President*
Morris Greenberg *Vice-President*
W. Ray Manning *Vice-President*
Bernard A. Rittersporn *Vice-President*
Henry H. Mayer *Second Vice-President*
Clay E. Steele *Secretary and Treasurer*
Thomas E. Davison *Comptroller*
Morris Neufeld *Assistant Secretary and Assistant Treasurer*

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TRANSFER AGENTS
The First National Bank of Chicago
Chicago 90, Illinois
Bankers Trust Company
New York 15, N. Y.

REGISTRARS
Continental Illinois National Bank and Trust Company of Chicago
Chicago 90, Illinois
The New York Trust Company
New York 15, N. Y.

HART SCHAFFNER & MARX

CHICAGO NEW YORK

March 1, 1949

To the Stockholders of
Hart Schaffner & Marx:

The accompanying annual report for the fiscal year 1948 reflects the results of the operations of your company in a year which witnessed a number of important developments. The company was able to maintain a high rate of activity in both wholesale and retail operations. Consolidated sales increased from $56,527,917 in 1947 to an all-time high of $63,037,888 in 1948. The consolidated net profit for the year was $2,894,814 as compared with $3,212,126 for the previous year.

Our manufacturing facilities operated at capacity throughout the year. Wholesale shipments showed a substantial increase. Aggregate sales of the retail subsidiaries also increased, declines in a number of stores being offset by increases in others, particularly in the new Baskin store on State Street in Chicago. Because of higher expenses and narrower profit margins however, total retail profits were less than for the previous year.

During the last five years, sales of the company have almost doubled. Profits have declined moderately from the peak reached in 1946. Inventories which were unusually low during the period of merchandise shortages now bear a normal relationship to sales. As delivery schedules improve some reductions can be made.

Previous annual reports have called attention to the growing financial needs of the company. In order to arrange for additional working capital, the company sold to The Equitable Life Assurance Society of the United States $6,000,000 of 3½% sinking fund debentures which will be repaid in annual installments over a period of fifteen years, the final payment being due June 1, 1963. Since the close of the year, arrangements have been made whereby the company expects to increase the amount of this loan by an additional $2,000,000.

The attention of stockholders is directed to the five-year summary which appears on the last page of the report. It will be observed that out of earnings of $12,568,522 made during the last five years, a total of $9,178,941 has been applied to a program of improvement and modernization. This has gone principally into the improvement of retail store plants. Some further additions are in prospect during the coming years.

The retail stores have in recent years contributed substantially to the growth of the company and to its profits. Many of them were started during the late 1920's and were seriously affected by the subsequent depression. They are now well established institutions. Our experience encourages us to believe that with attractive and modern retail establishments, the stores are in a position to meet competition more effectively, and to take advantage of opportunities as they present themselves.

Although the expenditures for property additions have been principally for the benefit of retail stores, the company has also had to consider the need for improved manufacturing facilities. During the year, we acquired a 12-story fire-proof building at 720 West Jackson Boulevard in Chicago which will provide approximately 310,000 square feet of floor space, sufficient to permit the concentration in one building of manufacturing operations now carried on in three separate buildings in various parts of the city. Occupancy of the new building should be completed by the end of 1949. It is expected that this move will permit definite gains in efficiency, better supervision, and continued improvement in quality.

Now that supply has caught up with demand, the clothing industry is again operating on a highly competitive basis. It is expected that all elements in the industry will proceed cautiously until such time as price trends are more definitely determined. Our advance bookings for Spring '49 are below those received for the corresponding period of last year. The position of the makers of quality clothing however, has been relatively better than that of other sections of the industry.

Your management is keenly conscious of the problems which face the apparel industry in a period following a boom. Our success will depend upon the maintenance of the quality of our product, upon its acceptance by the consumer, and on the continuance of the close relationship with our customers which has existed over many years. The clothing industry faces a period of readjustment and the outlook for the current year is uncertain but we are sufficiently encouraged by the progress made in recent years to be optimistic about our ability to maintain our production and distribution at satisfactory levels.

Respectfully submitted,

MEYER KESTNBAUM
President

HART SCHAFF

AND SUBSIDIAI

CONSOLIDATED

As of November 3

Assets

	1948	1947
Current Assets:		
Cash	$ 2,258,522	$ 3,157,906
U. S. Government securities, at cost	76,200	260,976
Notes and accounts receivable—		
Trade, less reserves for doubtful balances and discounts	6,756,300	5,196,143
Other	408,728	242,235
Inventories—		
Factory inventories at cost or market whichever is lower for current season's goods and estimated realizable value for past seasons' goods; retail stores' inventories at cost or market whichever is lower computed by the retail method	18,018,171	12,870,312
Prepaid rentals, insurance, supplies, etc.	515,369	394,244
Total current assets	$28,033,290	$22,121,816
Other Assets:		
U. S. Government securities (at cost) and cash deposited in escrow for building purposes and deposits under leases	$ 626,081	$ 669,500
Notes of officers and employees for purchase of company's common stock	219,200	242,600
Sundry investments (at cost) and loans, less reserves	359,514	386,217
Cash surrender value of insurance policies on lives of officers of certain subsidiaries	64,916	58,175
	$ 1,269,711	$ 1,356,492
Properties, at cost:		
Building, shop equipment, furniture and fixtures	$ 7,118,840	$ 4,764,344
Reserve for depreciation	3,114,354	2,910,912
	$ 4,004,486	$ 1,853,432
Leaseholds and leasehold improvements, less amortization	4,034,294	3,480,016
Land	120,000	—
	$ 8,158,780	$ 5,333,448
Goodwill, Trade Names and Trade-Marks, at record value	$ 1	$ 1
	$37,461,782	$28,811,757

'NER & MARX

RY COMPANIES

BALANCE SHEET

0, 1948 and 1947

Liabilities

	1948	1947
Current Liabilities:		
Notes payable to banks	$ 2,000,000	$ 3,000,000
Note payable secured by purchase money mortgage on real estate	1,207,000	——
Sinking fund debentures payable May 31, 1949	400,000	——
Accounts payable—		
Trade	2,225,009	1,418,319
Other	755,180	781,888
Accrued salaries, wages and rents	1,074,546	1,159,189
Accrued taxes (other than taxes on income)	330,036	243,387
Reserve for federal and state taxes on income	2,096,865	2,487,436
Total current liabilities	$10,088,636	$ 9,090,219
Funded Debt:		
3½% sinking fund debentures, due June 1, 1963	$ 6,000,000	——
Less—Amount payable in 1949, included in current liabilities	400,000	——
	$ 5,600,000	——
Minority Stockholders' Interest	$ 99,893	$ 91,981
Reserve for Contingencies	$ 700,000	$ 700,000
Capital Stock and Surplus:		
Common stock—authorized and issued—375,000 shares, par value $10.00 each	$ 3,750,000	$ 3,750,000
Surplus per accompanying statement		
Capital surplus	1,628,475	1,628,475
Earned surplus	16,026,005	13,982,309
	$21,404,480	$19,360,784
Deduct—Treasury stock—20,367½ shares	431,227	431,227
	$20,973,253	$18,929,557
	$37,461,782	$28,811,757

NOTE:

Under the provisions of the debenture issue, $13,482,309 of the total consolidated earned surplus at November 30, 1948, is restricted as to payment of dividends.

HART SCHAFFNER & MARX

AND SUBSIDIARY COMPANIES

CONSOLIDATED STATEMENTS OF PROFIT AND LOSS AND SURPLUS

For the fiscal years ended November 30, 1948 and 1947

PROFIT AND LOSS

	1948	1947
Net sales and operating revenues	$63,037,888	$56,527,917
Dividends from sundry investments, interest and other income	218,775	133,181
Total	$63,256,663	$56,661,098
Less:		
Cost of goods sold and occupancy expenses (exclusive of depreciation and amortization)	$45,601,883	$40,572,867
Depreciation and amortization	620,153	340,803
Selling, general and administrative expenses	11,881,440	10,112,752
Interest paid	175,755	70,286
Sundry income deductions	30,215	22,353
Minority interest in net profits of subsidiaries	10,312	18,296
Provision for taxes on income—		
Federal normal income tax and surtax	2,012,016	2,261,795
State income taxes	30,075	49,820
Total	$60,361,849	$53,448,972
Profit for the year transferred to earned surplus	$ 2,894,814	$ 3,212,126

CAPITAL SURPLUS

Balance at beginning and end of year	$ 1,628,475	$ 1,628,475

EARNED SURPLUS

Balance at beginning of year	$13,982,309	$11,625,861
Profit for the year from consolidated statement of profit and loss	2,894,814	3,212,126
	$16,877,123	$14,837,987
Dividends of $2.40 per share in 1948 and 1947	851,118	855,678
Balance at end of year	$16,026,005	$13,982,309

REPORT OF ACCOUNTANTS

To the Board of Directors of
Hart Schaffner & Marx:

We have examined the consolidated balance sheet of Hart Schaffner & Marx and its subsidiary companies as at November 30, 1948, and the related consolidated statements of profit and loss and surplus for the fiscal year then ended. Our examination was made in accordance with generally accepted auditing standards, and, accordingly included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances. Under a plan of periodic audits, we visited a number of the subsidiaries as of July 31, 1948, and these included the principal subsidiaries of the company except one which was examined by other independent accountants. In respect of all subsidiaries we were furnished, as at November 30, 1948, with their financial statements supported by details of inventories, receivables and other data, and obtained direct confirmation in respect of bank balances. The books and records of the subsidiaries not independently examined or tested have been audited during the year by internal auditors employed by the company, and the financial statements and internal auditors' reports have been subjected to our review. On the basis of such review, supplemented by inquiries we have made, we are of the opinion that the accounting procedures followed by these subsidiaries are in accordance with accepted principles of accounting maintained by the subsidiaries whose records were independently examined during the year. The combined assets, sales and net income of the subsidiaries (unimportant individually) which were not independently examined are, in the light of the tests which we have made, not material in relation to the consolidated total assets, sales and net income.

In our opinion, the accompanying financial statements present fairly the consolidated position of Hart Schaffner & Marx and its subsidiaries as of November 30, 1948, and the results of their operations for the fiscal year then ended, in conformity with generally accepted accounting principles applied on a basis consistent with that of the preceding fiscal year.

PRICE, WATERHOUSE & CO.

CHICAGO, ILLINOIS
January 24, 1949

FIVE YEAR SUMMARY

	1948	1947	1946	1945	1944
Net Sales and Operating Revenues	$63,037,888	$56,527,917	$45,808,460	$33,805,246	$33,814,118
Federal Income Taxes	2,012,016	2,261,795	2,202,476	2,247,479	1,851,096
Net Earnings After Federal Income Taxes	2,894,814	3,212,126	3,423,126	1,645,860	*1,392,596
Per Share	8.16	9.06	9.44	4.63	3.91
Dividends Paid in Cash	851,118	855,678	644,518	569,252	426,939
Per Share	2.40	2.40	1.80	1.60	1.20
Undistributed Net Earnings Transferred to Surplus	2,043,696	2,356,448	2,778,608	1,076,608	965,657
Amounts Expended Annually for Property Additions**	3,266,729	2,627,631	1,475,926	282,702	1,525,953
Current Assets	28,033,290	22,121,816	20,179,895	16,964,572	16,247,731
Current Liabilities	10,088,636	9,090,219	6,416,958	4,373,192	3,987,222
Net Current Assets	***17,944,654	13,031,597	13,762,937	12,591,380	12,260,509
Fixed Assets—Less Depreciation and Amortization at November 30th.	8,158,780	5,333,448	2,604,087	1,292,600	1,003,227
Net Worth	21,673,253	19,629,557	17,580,661	14,528,053	13,451,445

*After appropriation of $100,000 for contingencies.

**Retail store leasehold improvements and equipment—Factory Building and manufacturing equipment.

***In 1948 the company issued $6,000,000 of 3½% sinking fund debentures, the proceeds from which (less $400,000 payable in 1949 which is included in current liabilities of 1948) were added to working capital.